OREGON LABOR TRENDS

STATE OF OREGON • EMPLOYMENT DIVISION • DEPARTMENT OF HUMAN RESOURCES

Prepared by Research and Statistics Section
October 1982

SEPTEMBER INDICATORS

UNEMPLOYMENT RATE

	S.A.	Raw
Oregon		
Sep. '82	11.2	10.0
Aug. '82	10.9	10.3
U.S.		
Sep. '82	10.1	9.7
Aug. '82	9.8	9.6

WAGE AND SALARY EMPLOYMENT INDEX

Oregon	1972=100
Sep. 1982:	123.8
Aug. 1982:	124.4
Sep. 1981:	130.9
Sep. 1980:	133.3
Sep. 1979:	137.6

DIFFUSION INDEX

Oregon	
Sep. 1982:	38.0
Aug. 1982:	35.8
July 1982:	37.0

PRODUCTION WORKER AVERAGE WEEKLY HOURS

Oregon	
Aug. 1982:	38.0
July 1982:	37.6
Aug. 1981:	37.2

CONSUMER PRICE INDEX (CPI)

1967=100
ALL URBAN CONSUMERS

Portland SMSA	
Sep. 1982	288.2
Year Change	- 1.0%
U.S.	
Sep. 1982	293.3
Year Change	5.0%

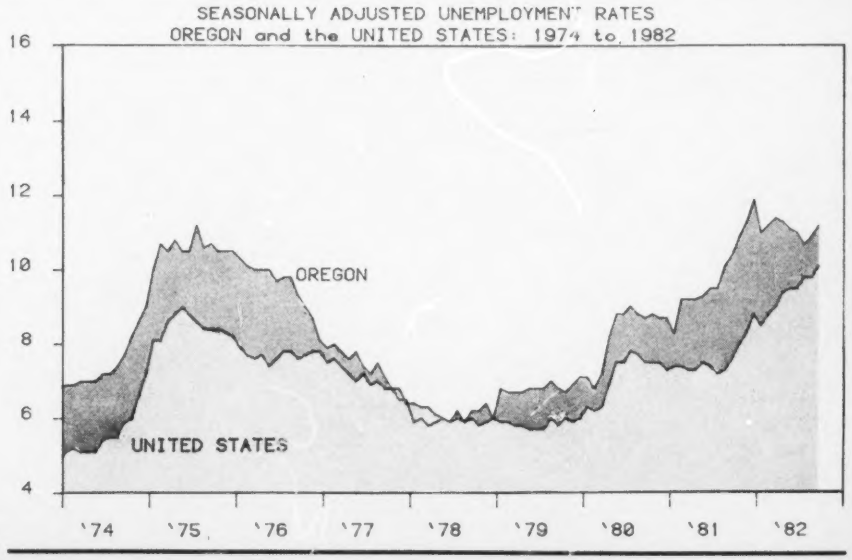
WHO'S ON FIRST?

The latest economic signs suggest that a national recovery has not begun. But it could begin in the next few months if interest rates continue to fall, or even just stabilize, and consumers start to spend more freely.

Most analysts believe that consumer spending, particularly on durable goods like automobiles, appliances, home furnishings, etc. must provide the stimulus to get the economy rolling again. Consumer spending accounts for roughly 2/3 of the nation's GNP and has an enormous impact. With U.S. factories operating at less than 70% capacity and much lower levels in some basic industries, it is simply not realistic to expect plant and equipment spending by businesses to lead the recovery, regardless of supply-side tax incentives. However these recent tax changes will make it easier for business to finance expansion when the time comes.

The financial condition of consumers, overall, has improved in the past year due to tax cuts, sharply reduced inflation, and an increase in personal savings. But while many people may have the capacity to increase spending, their confidence has been severely shaken by rising unemployment and business failures.

September's labor market report offered no consolation to cautious consumers. The U.S. Bureau of Labor Statistics reported that the nation's unemployment rate jumped from 9.8% in



August to 10.1% in September, the highest rate since 1940 when joblessness averaged 14.6% (monthly rates were not computed until 1943). The number of unemployed workers climbed by 455,000 to 11.3 million. Jobless rates for selected worker groups in September were also mostly higher, some to record levels, as shown below:

U.S. RATES OF UNEMPLOYMENT
September 1982

	Unemployment Rate Seasonally Adjusted	Change from August
All workers	10.1	+0.3
Adult men	9.6	+0.7
Adult women	8.3	+0.1
Whites	9.0*	+0.4
Blacks	20.2*	+1.4
Teenagers	23.7	-0.3
Black teenagers	48.5	-3.1
Full-time workers	10.1*	+0.5

* Denotes record high

Two other labor market indicators were equally grim. The number of "discouraged workers", those who have given up looking for work, jumped to a record 1.6 million. And the number of people working part-time because they could not find full-time jobs rose to a record 6.6 million from 5.6 million in August, a "gigantic rise" according to a BLS spokesman. Although it is true that unemployment is a "lagging" indicator since employers initially react to an increase in business by extending their existing employes' work hours, September's labor report was not likely to generate much confidence on the part of consumers or business managers. Furthermore the average workweek, which is a leading indicator, was unchanged for all nonfarm workers, and down 0.4 to 38.6 hours for manufacturing workers. This was consistent with the 0.6% drop in the nations' industrial output in September -- the 12th such drop in the last 14 months.

The average workweek is one of ten components that comprise the Commerce Departments' index of leading indicators. This composite index has risen in four of the last five months however, so still is a positive sign despite its 0.9% drop in August, the latest month available. Five of the 10 components declined including the average workweek, first time claims for unemployment insurance, factory orders for consumer goods, building permits, and crude material prices. Those components showing an increase in August were stock prices, plant and equipment orders, companies receiving slower deliveries from vendors, liquid assets, and the money supply.

One of the keys to the future course of the economy is lower interest rates. The dramatic decline in short term rates since July and recent slippage in long term rates, including mortgages, is a very positive sign. Although some of this downturn in rates simply reflects falling private credit demands due to the sluggish economy, a major reason is that the Federal Reserve appears to be relaxing its tight grip on the nation's money supply, at least temporarily. In addition the FED has been encouraging lower rates and faster growth of the money supply by dropping its discount rate several times since July. This is the interest rate which member banks pay when they borrow from the FED. The recent extraordinary rally in the stock market indicates that investors at least believe that the FED will continue to encourage lower interest rates in the months ahead rather than focus primarily on fighting inflation by keeping a tight lid on money supply growth.

If the Wall Street gurus are right and interest rates for most borrowers continue to fall well into 1983, a major barrier to economic recovery in Oregon will be removed. Due to the depth and nearly three year duration of this recession in Oregon, however, the road to recovery may take several years.

Homebuilding is expected to rebound slightly but to still fall short of normal. The 1.3 million housing units that the Western Wood Products Association hopes to be built in 1983 will be slightly better than the 1.1 million units projected for 1982 but far short of a more normal 1.75 million units.

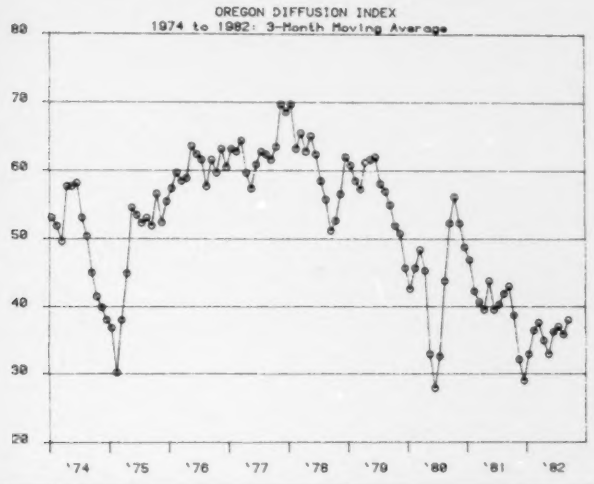
At present Oregon's economy is showing signs of further weakness. The state's raw unemployment rate dropped 0.3 points to 10.0% in September-the lowest level so far this year. After seasonal adjustment however, the rate increased by three tenths of a point to 11.2%, where it ha. hovered for most of this year. The following table shows the trend in both the raw and seasonally adjusted unemployment rates in Oregon during 1982:

	Unemployment Rate	
	Raw	Seasonally Adjusted
January	12.7	11.0
February	12.5	11.2
March	12.3	11.5
April	11.8	11.3
May	11.1	11.1
June	10.9	11.0
July	10.3	10.7
August	10.3	10.9
September	10.0 (prelim)	11.2 (prelim)

By the seasonal nature of Oregon's economy, unemployment predictably recedes from January through about September of each year.

The actual number of unemployed residents declined by 3,100 in September leaving 130,500 still without jobs. Total employment jumped by 8,600 to 1,177,600 in September but this fell short of seasonal expectations. The same was true for nonfarm payroll employment which increased by 10,800 to 975,100 in September. Due to the sub-par seasonal performance, Oregon's wage and salary employment index dropped another .6 to 123.8, the lowest level since October 1977.

A more positive sign in September, however, was the 2.2 rise in Oregon's diffusion index to 38.0. This means that the percentage of a selected group of 43 industries showing an increase in seasonally adjusted employment rose from just under 36% to 38%. Although the goal is to have more industries expanding than contracting (index value over 50%), September's change was at least in the right direction.



September's nonfarm employment rise of 10,800 was definitely not broadly-based. The reopening of schools following Labor Day pushed employment 11,200 higher in local education. But this was 4,300 fewer than a year ago. Budget woes facing many school districts will result in lower 1982-83 staffing levels than a year ago. This trend will be reinforced by declines in student enrollment in many districts throughout Oregon this fall. Lower enrollments are due to out-migration of unemployed workers and other demographic factors.

No other industry categories even came close to matching the September employment gain in local education. Retail trade managed to add 800 more workers, but this was far below the normal increase. About 1,000 workers were hired in the eating/drinking portion of retail trade, partially reflecting the boost in contracted food service activities associated with the opening of schools. Perhaps the biggest disappointment in September's job report was the overall increase of only 500 workers in the Wholesale and Retail Trade sector. On a seasonally adjusted basis this translates into a decline of 3,100 jobs - hardly a sign that consumer spending is about to take off!

Two other industry categories that generated at least 500 more jobs in September were Construction and Transportation Equipment. The pick up in building activity came mainly in home repair and electrical work. Lower interest rates and the recent successful sale of some $247 million in housing bonds by the State Department of Veterans Affairs and Oregon Housing Division will help this sector further in the months ahead.

A jump of 800 jobs in ship building and repair activities more than offset some layoffs in other sectors of the transportation equipment industry.

Several other manufacturing sectors were also in the minus column in September. Employment dropped in the machinery (-400) and instruments and related products (-300) industries due to a lack of orders. Layoffs were also reported in paper manufacturing (-400), primarily reflecting the need to reduce excess inventories of newsprint at one Portland area plant.

There was another "industry", or group of industries actually, that seemed to fare quite well in September as well as throughout the entire summer. Tourism, which includes such industries as restaurants, lodging places, amusements, etc., has enjoyed a relatively good 1982-to-date season, especially in light of the economy's overall weakness. According to the Travel Information Section of the Oregon Dept. of Transportation, visitor counts at the state's six border information centers showed a 6% increase in September over the same month a year ago. This increase pushed the visitor counts for June through September to just above 1981's total for the same four-month period. More than 220,000 visitors have passed through the information centers since mid-May.

To sum up, it appears that some of the main conditions necessary for economic recovery are beginning to fall into place. Inflation has declined significantly, and so have expectations of future inflation. Interest rates in the past few months have fallen, and many expect this trend to continue in the months ahead, although at a much slower rate. As a result the stock market has soared to new volume heights, making it easier for many corporations to raise needed funds.

But along with this growing optimism are some cold, hard statistics indicating that industrial production is still sliding, unemployment is still rising, and consumers are still cautiously waiting.... There seems to be a paradox here - consumers are waiting for the economy to improve before boosting their spending, while the economy is waiting for consumers to lead the recovery. The question is -- "Who's on first"?□

RESIDENT OREGON LABOR FORCE

	Sept. 1982 1/	Aug. 1982 2/	Change	% Change	Sept. 1981 5/
Civilian Labor Force 3/	1,308,100	1,302,600	+5,500	+0.4	1,343,900
Unemployment	130,500	133,600	-3,100	-2.3	120,000
Percent of Labor Force	10.0	10.3	xxx	xxx	8.9
Seasonally Adjusted Percent	11.2	10.9	xxx	xxx	10.4
Total Employment 4/	1,177,600	1,169,000	+8,600	+0.7	1,223,900

1/ Preliminary. 2/ Revised. 3/ Includes employed and unemployed individuals 16 years and older. Data are adjusted for multiple job-holding and commuting. 4/ Includes nonagricultural wage and salary, self-employed, unpaid family workers, domestics, farm workers, and labor disputants. 5/ Due to revised estimating procedures between December 1981 and January 1982, data for 1982 and that of previous years are not strictly comparable.

NONAGRICULTURAL WAGE & SALARY EMPLOYMENT
(By Place of Work)

INDUSTRY	Sept. 1982 1/	Aug. 1982 2/	Sept. 1981	Change From Aug. 1982	Change From Sept. 1981
TOTAL 3/	975,100	964,300	1,031,800	10,800	-56,700
Wage & Salary Employment Index 4/	123.8	124.4	130.9	xxx	xxx
Diffusion Index 5/	38.0	35.8	43.0	xxx	xxx
Total Manufacturing	196,500	196,700	213,100	-200	-16,600
Durable Goods	135,900	135,900	151,900	0	-16,000
Lumber & Wood Products	59,100	59,000	65,800	100	- 6,700
Logging & Sawmills	30,800	30,700	34,600	100	- 3,800
Veneer & Plywood	17,500	17,600	18,800	-100	- 1,300
Millwork & Structural Wood	6,000	5,900	6,400	100	- 400
Mobile Homes	1,600	1,600	2,100	0	- 500
Other Wood Products	3,200	3,200	3,900	0	- 700
Furniture & Fixtures	2,100	2,000	2,500	100	- 400
Stone, Clay, Glass, & Concrete	4,000	3,900	4,200	100	- 200
Primary Metals	7,300	7,400	10,100	-100	- 2,800
Blast Furnaces, Iron & Steel	4,000	4,100	5,600	-100	- 1,600
Nonferrous Metals	3,300	3,300	4,500	0	- 1,200
Fabricated Metals	9,600	9,600	11,500	0	- 1,900
Fabricated Structural Metals	4,000	3,900	4,400	100	- 400
Other Fabricated Metals	5,600	5,700	7,100	-100	- 1,500
Machinery	16,100	16,500	18,500	-400	- 2,400
Electrical Equipment & Supplies	10,300	10,300	10,200	0	100
Transportation Equipment	8,200	7,700	8,800	500	- 600
Instruments & Related Products	16,800	17,100	17,700	-300	- 900
Miscellaneous Manufacturing	2,400	2,400	2,600	0	- 200
Nondurable Goods	60,600	60,800	61,200	-200	- 600
Food & Kindred Products	30,400	30,100	29,900	300	500
Canning & Preserving	20,000	19,900	19,100	100	900
Other Food Products	10,400	10,200	10,800	200	- 400
Textile Mill Products	1,900	1,900	1,900	0	0
Apparel	3,000	3,000	2,900	0	100
Paper & Allied Products	9,700	10,100	10,500	-400	- 800
Printing & Publishing	10,300	10,300	10,400	0	- 100
Chemicals & Allied Products	2,100	2,100	2,200	0	- 100
Petroleum Refining	500	500	500	0	0
Rubber & Plastic Products	2,400	2,500	2,600	-100	- 200
Leather Products	300	300	300	0	0

NONAGRICULTURAL WAGE & SALARY EMPLOYMENT
(By Place of Work)

INDUSTRY	Sept. 1982	Aug. 1982	Sept. 1981	Change From Aug. 1982	Change From Sept. 1981
(cont.)					
Total Nonmanufacturing	778,600	767,600	818,700	11,000	-40,100
Mining & Quarrying	2,600	2,500	2,500	100	100
Construction	33,000	32,500	39,200	500	- 6,200
Transportation, Communications, & Utilities	56,500	56,400	60,700	100	- 4,200
Transportation	32,000	31,800	35,100	200	- 3,100
Railroad	5,900	6,000	6,900	-100	- 1,000
Trucking & Warehousing	15,900	16,100	17,500	-200	- 1,600
Other Transportation	10,200	9,700	10,700	500	- 500
Communications	15,500	15,500	16,400	0	- 900
Utilities	9,000	9,100	9,200	-100	- 200
Trade	247,100	246,600	258,900	500	-11,800
Wholesale Trade	62,600	62,900	69,300	-300	- 6,700
Durable Goods	35,600	36,200	40,900	-600	- 5,300
Nondurable Goods	27,000	26,700	28,400	300	- 1,400
Retail Trade	184,500	183,700	189,600	800	- 5,100
General Merchandise	23,900	23,900	24,700	0	- 800
Food Stores	26,200	26,200	28,000	0	- 1,800
Auto Dealers & Service Stations	22,000	22,200	23,200	-200	- 1,200
Other Retail Trade	112,400	111,400	113,700	1,000	- 1,300
Finance, Insurance, & Real Estate	64,300	65,000	68,700	-700	- 4,400
Banking & Credit Agencies	23,500	23,600	25,300	-100	- 1,800
Other Finance, Insurance, & Real Estate	40,800	41,400	43,400	-600	- 2,600
Services	186,600	186,500	193,800	100	- 7,200
Hotels & Personal Services	23,600	23,500	25,200	100	- 1,600
Health Services	63,600	64,300	65,600	-700	- 2,000
Other Services	99,400	98,700	103,000	700	- 3,600
Government	188,500	178,100	194,900	10,400	- 6,400
Federal Government	30,700	30,900	30,700	-200	0
State Government	48,900	48,700	49,400	200	- 500
Education	18,000	17,600	19,000	400	- 1,000
Other State	30,900	31,100	30,400	-200	500
Local Government	108,900	98,500	114,800	10,400	- 5,900
Education	63,700	52,500	68,000	11,200	- 4,300
Other Local	45,200	46,000	46,800	-800	- 1,600
Labor-Management Disputes	0	100	500	-100	- 500

1/ Preliminary

2/ Revised

3/ Includes full and part-time nonfarm wage and salary workers in pay periods including the 12th of the month. Proprietors, self-employed, private household workers and armed forces excluded. NOTE: Estimated in cooperation with the U.S. Bureau of Labor Statistics and Employment and Training Administration. All data are based on the 1972 Standard Industrial Classification (SIC) codes.

4/ The employment index is a measure of change from the base year (1972 = 100) of seasonally adjusted employment.

5/ The diffusion index is the percentage of a selected group of 43 industries showing an increase in seasonally adjusted employment. Half of those industries showing no significant change (less than 1/2 of 1%) are counted as increasing.

The elusive "ups' and persistent "downs" that ave been experienced for several months do not eem to indicate we are any closer to beginning he hard climb out from Oregon's economic woes. ugust figures for employes in Lumber and Wood roducts posted a .5 hour increase in average eekly hours and a $.03 decrease in average hour- y earnings from the July levels, accompanied by a mall rise in employment over the same time peri- d. While average weekly earnings gained $46.81 ver the August 1981 level as an outcome of in- reased weekly hours and hourly earnings, employ- ent fell 12.5% for the same time span. Veneer nd Plywood was the strongest performer posting a .7 hours per week increase due to returns from ayoff and resumption of near normal workweeks ollowing July vacation closures. Other sectors f Lumber and Wood Products experienced declines n both average weekly hours and hourly earnings s evidence of the continued ailing health of regon's wood products industry. The hardest hi as the Mobile Home Industry which lost 10.5 ours per week and $70.87 in weekly earnings due o production shutdowns in several firms.

Fabricated Metals posted a .6 hour increase in response to returns from July layoffs in several firms. As an outcome of increased average weekly hours in the Electronic Computing Equipment sector, Machinery recaptured a portion (.4 hour) of the weekly hours lost in July.

With continued hiring of lower paid seasonal workers in the Food and Kindred Products industry, hourly earnings fell ($.45) while weekly hours inched up .1 hour. Concurrently, other nondurable goods industries experienced a combination of increases and decreases in average weekly hours ranging from a 1.0 hour increase in Printing and Publishing (due to a large increase in overtime hours for lithographic firms responding to seasonal increases) to a decrease of 1.6 hours in Paper and Allied Products, caused by lack of demand for the products.

The nonmanufacturing sector posted an increase in average hourly earnings as declining production

AVERAGE HOURS AND EARNINGS OF OREGON INDUSTRIAL PRODUCTION WORKERS 1/

	Average Weekly Earnings			Average Weekly Hours			Average Hourly Earnings		
	2/ Aug. 1982	3/ July 1982	Aug. 1981	2/ Aug. 1982	3/ July 1982	Aug. 1981	2/ Aug. 1982	3/ July 1982	Aug. 1981
OTAL MANUFACTURING 4/	$378.48	$378.26	$353.03	38.0	37.6	37.2	$9.96	$10.06	$9.49
Durable Goods	403.13	398.43	368.48	38.8	38.2	37.6	10.39	10.43	9.80
Lumber & Wood Products	418.95	414.72	372.14	38.9	38.4	36.2	10.77	10.80	10.28
Logging & Sawmills	454.46	459.68	390.20	39.9	40.5	35.7	11.39	11.35	10.93
Veneer & Plywood	420.42	389.01	377.94	39.0	35.3	36.8	10.78	11.02	10.27
Millwork & Struct Wood	298.72	317.18	299.95	37.2	38.4	37.4	8.03	8.26	8.02
Mobile Homes	206.19	277.06	286.58	26.1	36.6	35.6	7.90	7.57	8.05
Other Wood Products	380.09	362.10	349.41	37.3	35.5	35.8	10.19	10.20	9.76
Furniture & Fixtures	230.48	256.28	236.67	32.1	33.9	34.3	7.18	7.56	6.90
Primary Metals	478.14	478.28	458.64	39.0	39.3	39.1	12.26	12.17	11.73
Fabricated Metals	363.07	369.00	355.32	36.6	36.0	37.8	9.92	10.25	9.40
Machinery	384.56	384.13	372.07	37.3	36.9	38.2	10.31	10.41	9.74
Nondurable Goods	322.54	331.42	313.49	36.2	36.3	36.2	8.91	9.13	8.66
Food & Kindred Prod	261.25	276.40	269.78	35.4	35.3	34.9	7.38	7.83	7.73
Canning & Preserving	214.83	224.76	224.11	34.1	33.9	33.3	6.30	6.63	6.73
Other Food Products	400.07	393.09	383.73	39.3	38.5	38.8	10.18	10.21	9.89
Textile Mill Products	202.99	191.76	199.02	38.3	37.6	38.2	5.30	5.10	5.21
Apparel	176.69	174.25	168.98	33.4	33.9	34.0	5.29	5.14	4.97
Paper & Allied Products	497.17	512.15	459.95	38.6	40.2	40.1	12.88	12.74	11.47
Printing & Publishing	392.63	364.09	353.81	34.9	33.9	35.1	11.25	10.74	10.08
Construction 4/	550.86	579.20	535.50	34.3	34.6	35.0	16.06	16.74	15.30
Communications & Utilities 5/	447.63	426.02	405.58	39.3	38.8	39.3	11.39	10.98	10.32
Trade 5/	283.37	284.76	286.58	34.1	34.6	35.6	8.31	8.23	8.05
Wholesale Trade	381.76	375.06	362.07	38.1	38.0	38.6	10.02	9.87	9.38
Retail Trade	231.04	234.46	227.47	32.0	32.7	33.6	7.22	7.17	6.77
Banking & Insurance	247.87	244.37	224.47						
State & Local Government	329.54	324.54	296.55						

/ Figures are average gross hours and earnings of full and part-time workers worked or paid for, including overtime and shift premium pay. Prepared in cooperation with the U.S. Department of Labor. All data are based on the 1972 Standard Industrial Classification (SIC) codes.
/ Preliminary
/ Revised
/ Data for production workers only and exclude administrative, supervisory (above working foremen), technical, sales and office personnel.
/ Data for nonsupervisory employes only, excluding proprietors and executive personnel. Data for retail trade excludes eating and drinking places.

worker counts increased the proportion of higher paid employes. Minor increases in average weekly hours for Communications and Utilities and Wholesale Trade were prompted by reduced overtime in Construction and reduced hours in General Merchandise and Food Stores, as well as Furniture, Home Furnishings, and Equipment Stores.

While the summer sun was warming Oregon's atmosphere, expectations were hopeful that a modest improvement would occur during the summer months for Oregon's workers. These expectations were not met. The Nonagricultural Wage and Salary Employment level was at its highest in June since December 1981 but fell dramatically in July and August to its lowest point in 4½ years. Similarly, average weekly hours for production workers in June 1982 was at its highest level since August 1980 with the July and August 1982 weekly hours falling sharply from June. In spite of this, average weekly hours for June, July and August 1982 exceeded those for the same time period in 1981. In summary, total Nonagricultural Wage and Salary Employment in June, July and August 1982 was down 5.3%, 5.2%, and 5.2% respectively since 1981, while production worker average weekly hours were up only slightly at 2.2, 0.5 and 3.7 hours for the same time period. The sought-after improvement in adverse conditions affecting Oregon's workers didn't shine this summer.□

UNEMPLOYMENT VS INFLATION – HISTORICAL PERSPECTIVE

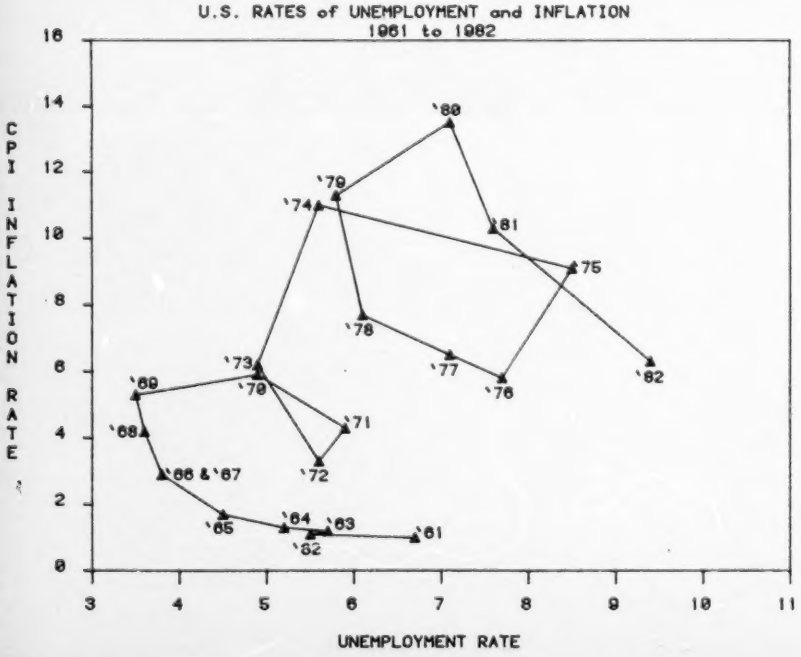
The following is continued from last months (September 1982) article titled "UNEMPLOYMENT vs. INFLATION - THE UPS AND DOWNS". Basic definitions and concepts were reviewed as well as the role of interest rates and their relationships to inflation and unemployment.

The following graph and table show the relationship between U.S. unemployment rates and CPI inflation for the years 1961 through 1982. The reader can follow on the graph the changes in both variables from year to year.

In the early 1960s unemployment fell fairly rapidly, accompanied by a slow rise in inflation. Policies of economic stimulus, emphasizing social programs, came into effect. Improvements in productivity in this era of rapid technological advance helped hold down inflation. So did two other factors that were then taken for granted: stable world energy prices and the absence of expectations of high inflation.

In the late 1960s unemployment rates fell more slowly and inflation accelerated as the nation pursued both the Vietnam War and extensive social programs. Unit labor and capital costs rose as productive capacity was strained near its limit. The decade of the 60s provides a classic example of rising "demand" inflation.

From 1970 to 1972 over 300,000 persons per year left the military and sought civilian jobs. The unemployment rate rose dramatically in 1970. Inflation continued to rise. The public had gradually come to regard inflation above 4% as permanent, and a "price-wage spiral" was in evidence. The process of taking the dollar off the gold standard and establishing floating exchange rates began in 1971. The devaluation of the dollar that accompanied this change tended to add to our inflation but lessen our country's unemployment. Wage and price controls instituted in 1971 had at least a temporary restraining effect on inflation



	Unemployment	Inflation
1961	6.7	1.0
1962	5.5	1.1
1963	5.7	1.2
1964	5.2	1.3
1965	4.5	1.7
1966	3.8	2.9
1967	3.8	2.9
1968	3.6	4.2
1969	3.5	5.9
1970	4.9	5.9
1971	5.9	4.3
1972	5.6	3.3
1973	4.9	6.2
1974	5.6	11.0
1975	8.5	9.1
1976	7.7	5.8
1977	7.1	6.5
1978	6.1	7.7
1979	5.8	11.3
1980	7.1	13.5
1981	7.6	10.3
1982*	9.5	6.3

* Estimate based on 9 month's data.

but unemployment continued to rise. In 1972 these traumatic events appeared to have run their course and improvements were seen in both unemployment and inflation.

Some inflationary shocks occurred in international trade in 1973. Grain sales were made to the USSR, and a surge of world demand set off an exaggerated rise in food prices and provided more American jobs. Another shock was developing that would seriously damage the job market: foreign oil prices jumped by an unheard of 24%.

During 1974 the Organization of Petroleum Exporting Countries (OPEC) quadrupled its prices, and foreign oil prices as a whole tripled in one year. Inflation leaped from 6 to 11%. Heavy borrowing by industry to cover rising production costs pushed the prime rate above 11%, and a recession began.

In 1975, as high energy costs made production less profitable for many employers, millions of Americans lost their jobs. The unemployment rate rose from 5½% to 8½%. Inflation began to fall slowly as the increase in world oil prices subsided to 12% and domestic and foreign demand was weakened by a worldwide recession. By 1976 the U.S. recession had ended and the unemployment rate improved as inflation continued to subside. The federal budget deficit, which averaged just under 1% of the Gross National Product (GNP) from 1961 to 1974, jumped to 2½% and nearly 4% of the GNP in 1975 and 1976. From 1975 through 1981 the deficit averaged about 2½% of the GNP.

The unemployment rate fell rapidly in 1977 and 1978 as inflation increased moderately. The traditional "demand" relationship between unemployment and inflation could again be detected but at a higher level of trade-off (compare the 1976-1978 curve with the 1961-1967 curve). Expectations of 6-8% inflation had become a partially self-fulfilling reality. Budget deficits remained above 2% of the GNP as social programs were emphasized. Efforts to become less dependent on foreign energy met with little success as oil prices stabilized.

During 1979 and 1980 inflation rose rapidly and continued upward to the highest level since 1947. Foreign oil prices more than doubled during these two years - a surprisingly little known fact. The unemployment rate, having improved for four straight years, rose sharply during the acute recession of the first half of 1980. The budget deficit, having fallen to 1% of the GNP in 1979 rose above 2% of the GNP of 1980. A major shift was instituted in monetary policy. Instead of managing interest rates, the Federal Reserve Board began a "monetarist" policy of strictly controlling the rate of growth of the money supply. Consistent slow monetary growth contributed to the rapid rise in interest rates, and thus to high unemployment. Core inflation peaked at about 9%.

In 1981 and so far in 1982, inflation has fallen from over 13% to under 7%. At the same time unemployment has risen by over two percentage points. The main causes for improvement in inflation have been stabilizing world oil prices, continued steady slow growth in the money supply, and slackening demand associated with the present recession that began officially in mid 1981. The prime rate peaked above 20% in 1981 but has now fallen below 14%. The drop in inflation has come in spite of the 1982 budget deficit being near 4% of the GNP. Core inflation has fallen to about 7½%.

In the past two years U.S. inflation rates have been halved. This achievement has occurred in the context of a long period of recession in which the national unemployment rate has risen above 10% and will average about 9½% for 1982.□

A more detailed analysis of the current interactions between unemployment and inflation will be sent to you upon request.

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